

Government Prices Oversight Act 1995

INVESTIGATION INTO THE EFFICIENT DELIVERY AND PRICING OF SERVICES PROVIDED BY METRO TASMANIA PTY LTD

TERMS OF REFERENCE

Terms of Reference are outlined below for the investigation to be conducted by the Government Prices Oversight Commission ("the Commission") into the pricing policies of Metro Tasmania Pty Ltd ("Metro") and their appropriateness by comparison to the pricing policies of other urban public transport service providers.

These Terms of Reference address each of the issues outlined in section 25 of the *Government Prices Oversight Act 1995* ("the Act").

The Functions and Other Activities of Metro

The principal function of Metro is to provide road passenger transport services in Tasmania and to operate those services in a manner consistent with sound commercial practice (section 5 *Metro Tasmania Act 1997*).

The primary activity of Metro is to provide urban public transport services within designated areas within the greater Hobart area, Launceston, Ulverstone and Burnie as specified in their Community Service Activity Agreement with the State (which runs to 30 June 2004). The Agreement also states the fares policies that are to be applied and requires that Metro operate in a pro-active manner to promote and develop services consistent with the provisions in the Agreement.

Services to be Investigated, Metro Pricing Policies and Incentives For Serving Passengers

The Commission is to investigate the pricing policies associated with the provision of the current scheduled route services by Metro in the designated metropolitan areas of the greater Hobart area, Launceston and Burnie and the town of Ulverstone. The Commission should also consider the impact on Metro's costs that would arise from any request for changes to the current route services.

Metro's fares policy is specified within the Community Service Activity Agreement between the Government and Metro. Metro obtains approximately 25 per cent of its total revenues from passenger fares, the remainder of its revenue being provided by the Government under this Agreement.

The Commission should review the appropriateness of Metro's pricing policies and draw conclusions from comparisons with the urban public transport pricing policies of other operators, both within Tasmania and elsewhere in Australia. Any proposals to modify Metro's pricing and fares policies should include an assessment of the financial and patronage implications.

The Efficiency and Effectiveness With Which Public Transport Services Are Delivered By Metro

In investigating the pricing policies of Metro, the Commission is to consider, where relevant:

- the efficiency with which public transport services are currently delivered by Metro; and
- the effectiveness of the current arrangements between Metro and the Government, including the incentive mechanisms, for purchasing services, having regard to the cost of delivery and service levels.

The Commission should consider the financial and patronage implications and appropriate arrangements for the purchase of services from Metro by the Government having regard to the incorporation of suitable indicators for measuring efficiency and effectiveness to measure the achievement of shareholder expectations including the cost of delivery and service levels.

The Commission should consider the effectiveness of the role and services delivered by Metro in terms of the Government's objectives as represented by the Shareholder Expectations at Attachment 1, and the role of the Community Service Activity Agreement in achieving this outcome. In doing so, the Government requests that, as part of this investigation, the Commission identify, and provide advice on, suitable indicators for measuring both the efficiency and effectiveness with which public transport services are delivered by Metro, and make comparisons using these measures with other relevant operators both within Tasmania and in other parts of Australia.

Any measures developed should be capable of adaptation for incorporation into future Community Service Activity Agreements to maintain a focus on the continuing efficiency and effectiveness of service provision. Performance against these measures could also form part of Metro's reporting obligations to shareholders and, subject to commercial confidentiality needs, could also be reported on in Metro's annual report.

Additional Matters: the Metro Index

As part of the 2000 review of Metro's pricing policies the Commission developed the Metro Index as a basis for allowing adjustments to Metro's adult fares under the terms of the Pricing Order. The index was also adopted by the Department as the basis for adjusting Metro's Community Service Activity payments.

The Commission is to review the adequacy of the Metro index in reflecting Metro's costs and make recommendations as to the need to make modifications to this index in order to effectively reflect changes in Metro's input costs for the next 3 to 5 years.

The Date of Completion

The Commission is to provide a copy of the Final Report required under section 35 of the Act in respect of the Metro investigation by 1 June 2003.

Requirement for the Commission to Make Recommendations

The Final Report provided by the Commission under section 35 of the Act must contain recommendations in relation to appropriate maximum prices (as defined in section 4 of the Act), and an appropriate mechanism to adjust such maximum prices, to enable Metro to deliver the defined services during the period of three years after the completion of the Final Report.

Draft Report

At an appropriate time during the investigation, the Commission is to make available a draft Report.

Shareholder Expectations

The Government, through its Shareholder Ministers, expects that Metro will:

- develop and provide safe, reliable and fair public transport services that are well suited to meeting the travel needs of its main client groups, being:
 - students travelling to and from school; and
 - persons travelling to and from main employment centres;
- provide travel opportunities to access services and facilitate social interaction for those in the community without access to private means of transport;
- effectively integrate with other public transport services, including taxis, where sufficient customer needs exist; and
- ensure a suitable focus on customers and quality in service delivery.